

The City of Morgan Hill faces a serious and continuing budget challenge. Our local economy is not generating sufficient revenue to sustain current services on an ongoing basis. The City's costs, especially for employee benefits, have increased significantly at the same time the economy has slowed and the City's revenue base has changed.

Because the City has prudently built up financial reserves (sometimes called "rainy day funds") over the previous decade, the Morgan Hill City Council has responded to this challenge without resorting to dramatic reductions in core City services, or immediately requesting that the voters approve increased taxes.

However, unless there are long-term structural changes to bring the budget into balance, core city services will have to be cut. Over the past three years, the City has reduced spending in many areas, however, General Fund reserves have been needed to balance the budget. The ongoing annual deficit is approximately \$1.5 million per year.

What are Core City Services?

The City's core services are:

- Police and Fire/Emergency Medical Services (EMS)
- Recreational programs
- Maintenance of parks and recreational facilities
- Basic city functions (administration, code enforcement and street repair)

Funding for core services comes from the City's general operating fund. Construction of facilities like the Aquatics Center and the Community and Cultural Center is paid for out of capital funds, which are highly restricted

What has Caused the Funding Shortfall?

- A reduction of funds from state government, due to the state's own budget crisis (\$700,000/year)
- A reduction in sales tax revenues due to an economic slowdown (\$1.3 million/year, though now rebounding)
- An increase in the cost of health and retirement benefits for city employees, in particular police (\$1.8 million/year)
- An increase in net operating costs for recreation facilities, due to the opening of new facilities (\$500,000/year)

The fiscal squeeze is real, and it must be addressed if the community's priorities for services and governance are to be met.